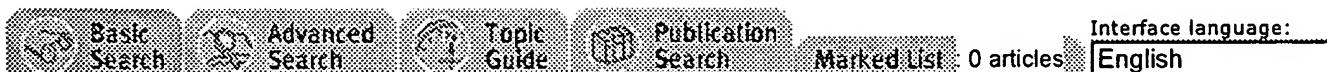


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The 10 best catalog loyalty tools

Melissa Dowling, Sherry Chiger. Catalog Age. New Canaan: Jun 1999. Vol.16, Iss. 7; pg. 229, 4 pgs

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Abstract (Article Summary)

The 10 best catalog loyalty tools are presented: 1. membership clubs, 2. frequent-buyer points, 3. volume discounts, 4. product panels, 5. newsletters, 6. credit cards, 7. reminder mailings, 8. continuity programs, 9. incentives for 2nd-time buyers, and 10. exemplary customer service.

Full Text (1188 words)

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We won't waste your time nattering on about why creating customer loyalty is so important, and why loyalty programs are critical. If you've made it this far in business, you know that repeat customers are the lifeblood of any catalog. But you may not know what constitutes a loyalty program. Ernie Edelstein, president of Escondido, CA-based catalog consultancy The Marketing Arm, believes that a good loyalty mechanism should accomplish the following:

Provide an incentive for customers to buy from you regularly.

Induce customers to spend more money each time they buy.

Make your catalog the "resource of choice" within its category.

Provide a perception that the customers have a vested interest in buying from your catalog.

Provide a vehicle that helps establish a genuine rapport between your company and your customers.

Provide supplemental vehicles to the catalog through which customers can be induced to make additional purchases.

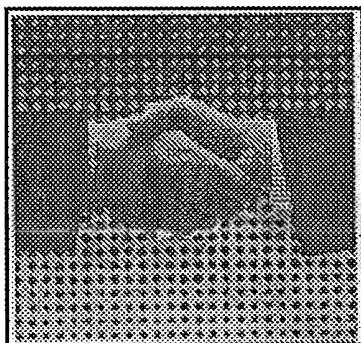
Provide customers with the opportunity to preview or test potential products, and an opportunity to purchase off-price products.

Provide essential product or industry information to customers.

Provide an extra incentive for customers who have not purchased for a period of time to buy again.

Ensure that the benefits of membership are designed to bring customers back to the original catalog.

No one mechanism can achieve all these goals, of course. But Edelstein and others agree that the most effective loyalty programs consist of a number of complementary tools.



[Photograph]

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THE TOP 10

Membership clubs. As the advertisement says, membership has its privileges. Membership clubs typically enable customers to pay an annual fee in exchange for product discounts and specials. For instance, gifts cataloger Eximious of London has a Limoges Encore Collector's Society-members pay a \$50 annual membership fee to receive a Limoges porcelain welcome box and a 10% discount on product orders.

In addition to special pricing, some clubs offer members perks such as special telephone hot lines, Website and e-mail promotions, and priority shipping or second-day air at no additional charge. Athletic shoes and apparel cataloger Road Runner Sports charges customers an annual fee of \$19.95 to join its Run America Club. Members receive a 5% discount on all regular-priced catalog products plus free subscriptions to Fitness Runner magazine and Runners' Journal newsletter, and access to the Runners' Hotline Information Service.

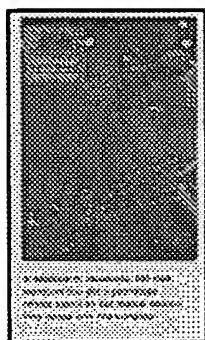
Frequent-buyer points. Catalogers such as Performance Bicycle and L&H Vitamins have taken a cue from the airlines and are awarding customers points for every dollar they spend; after accumulating a specified number of points, the buyers can redeem them either for free products or for dollars off the price of a product.

Volume discounts. You'd be hard-pressed to find a business-to-business cataloger that doesn't offer volume discounts, but more consumer catalogers-particularly those that sell consumables such as pet supplies and healthcare products-are providing them as well. Not only do volume discounts encourage customers to order more at one time, but they also give the perception that the cataloger is rewarding the customers for their patronage. Outdoor gear and apparel marketer REI takes the concept a step further and provides its membership club participants with an annual patronage refund based on the amount of money they spent with the company that year.



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Eximious of London builds strong customer loyalty with its Limoges Encore Collector's Society club.



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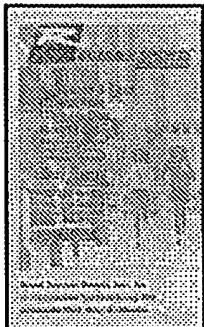
In addition to discounts, ~~OREC~~ club members can get a patronage refund based on the annual amount they spend with the company.

Product panels. ~~Road Runner Sports~~ offers its club members product testing privileges, though there's no reason other catalogers can't expand this concept to include their best customers. Based on their interests, Road Runner selects members to test items such as running and fitness apparel, accessories, shoes, nutritional products, and equipment. The product evaluations appear in *Fitness Runner* magazine, and testers may keep whatever merchandise they test.

Newsletters. The advent of e-mail marketing has made it possible for catalogers with an online presence to send regular e-mail newsletters to customers who opt in to receive them. By offering tips, notices of new products, and similar "added value" editorial, newsletters reinforce the bond between cataloger and customers while subtly encouraging recipients to order. For business-to-business catalogers, particularly those that mail only once a year, both e-mail and print newsletters build loyalty by serving as an "in your face" reminder to customersparticularly if they also offer special discounts or incentives.

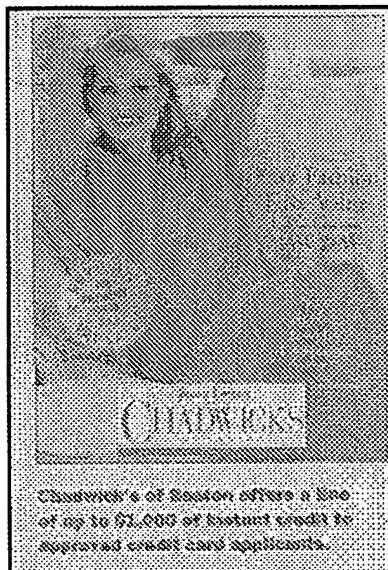
Credit cards. By offering proprietary credit cards, catalogers such as general merchant ~~Spiegel~~ and apparel mailer ~~Chadwick's of Boston~~ can encourage loyalty and increase spending. Credit cards can also help catalogers implement specials such as deferred billing ("buy now, pay later"), which further promote spending.

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[Photograph]

Road Runner Sports lets its merchandise testers keep the products that they evaluate.



[Photograph]

Chadwick's of Boston offers a line of up to \$1,000 of instant credit to approved credit card applicants.

Reminder mailings. Having trouble keeping track of your holiday gift list? Food gifts cataloger Harry and David, for one, will help: Customers who place holiday orders will receive reminder lists the next year noting to whom they sent gifts and what those gifts were. The advent of the Internet also enables marketers to send customers personalized e-mail reminders. Visitors to the Website of chocolatier Godiva, for instance, can fill out an online form of gift-giving occasions and ask to receive a reminder one or two weeks prior to the date.

Continuity programs. These include the food-of-the-month programs, popular among food catalogers such as Harry and David, Mission Orchards, and Omaha Steaks, in which customers typically send gift shipments of various specified products either on a regular monthly basis or on selected months or holidays. These programs, purchased as gifts for others, encourage customers to spend more with a catalog on a regular basis and increase sales, while reinforcing their relationship with a particular catalog brand.

Another type of continuity program is the auto-ship plan offered by catalogers of consumables such as printer cartridges, medical smocks and gloves, and cleaning products. Organic products cataloger Harmony, for one, allows customers to set up a standing order of home supplies to be delivered in quantities and at intervals of their specification.

Incentives for secondtime buyers. Conventional wisdom says that the sooner you encourage a first-time buyer to make a repeat purchase, the more likely the customer is to become a valuable long-term buyer. To that end, Scholar's Bookshelf sends firsttime buyers a discount coupon almost immediately after fulfilling the initial order. Other catalogers offer free shipping or gifts with a second purchase.

Exemplary customer service. Think of it as putting your mouth where your money is: A membership discount can't

compensate for an impatient order-taker, repeated backorders, or misdirected deliveries. Remember, the glitziest loyalty tools in the world won't keep catalog buyers loyal if your customer service falls short. The best way to reward buyers for their business is to treat them with the respect and appreciation that they, as pivotal elements to your success, so richly deserve.



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[Photograph]

Omaha Steaks offers several gift-of-the-month programs, such as The Culinary Calendar and Gourmet Entree of the Month. These types of continuity programs can solidify relationships with a brand.

[Author Affiliation]

Melissa Dowling and Sherry Chiger

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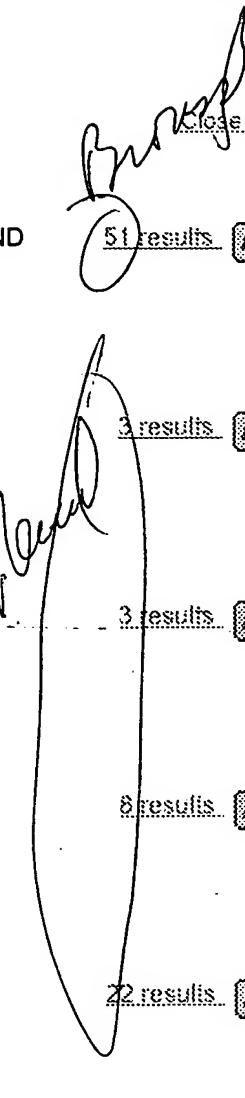
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Adding (A1) and (A2) and subtracting (A4), the net area is

$$(nQ_1^2/2)((n-1)/D_1 - (n-2)/R_2). \quad (\text{A5})$$

Dividing (A5) by the cycle time nQ_1/D_1 , we have the vendor's average inventory as

$$(Q_1/2)((n-1) - (n-2)D_1/R_2) \quad (\text{A6})$$

which is the same as formula (7) in the text.

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MANAGEMENT SCIENCE
Vol. 34, No. 11, November 1988
Printed in U.S.A.

REPLY

ON "COMMENTS ON A QUANTITY DISCOUNT PRICING MODEL TO INCREASE VENDOR PROFITS"

JAMES P. MONAHAN

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Professor Joglekar is to be thanked for his generally insightful Comments (1988) concerning my paper (Monahan 1984). He has in my view correctly assessed the limitations of two important production assumptions I made, assumptions which need to be rethought in any quantity-discount pricing models of the future. Yet, although I find myself in general agreement with Joglekar's comments, I wish to clarify some points concerning the model and its potential applicability.

I agree with Professor Joglekar that my model frequently will call for "small" quantity discounts from the supplier, and therefore does not adequately explain the many large discounts frequently observed in the world of business. But we should remember that the model was not built with this intention in mind. Quantity discounts are used here not to change the level of yearly demand, but merely to alter its current pattern. Larger objectives will doubtlessly call for larger price concessions. But we see here that even the more restrictive objective has potential economic value to the supplier and some, limited, negative financial implications for the buyer. "Small discounts" are this model's output, simply because this is what is called for to motivate the desired buying behavior. I don't believe we should expect otherwise.

Secondly, Professor Joglekar contends that an optimal production lot sizing strategy will outperform an optimal lot-for-lot/quantity discount strategy when $S_2 \gg S_1$. I believe that for large enough S_2/S_1 this is a provable mathematical result. If true, it tells us that ultimately we are better off abandoning this version of the quantity discount idea in favor of the more traditional lot sizing approach. Yet, Joglekar does not make clear at what

point in the ratio the dominance begins. Surely, it must depend not only on the size of the setup costs, but on the full set of parameters, especially R_2 .

Table I reexamines the numerical example furnished in §5 of Joglekar's paper (1988). All numerical parameters have been kept the same with two exceptions. First, to focus on the key matter, I have chosen to set the "order processing component" of S_2 equal to zero. Thus, all of S_2 is to be considered "manufacturing set-up costs." Secondly, I have recalculated the Supplier's Net Profits using both the "optimal discount/lot-for-lot (OD/LFL)" and "optimal production/no discount (OP/ND)" strategies for varying D_1/R_2 ratios.

Line one provides numerical support for Joglekar's basic contention that for $S_2 \gg S_1$, the OP/ND discount strategy will dominate the OD/LFL approach. We note in the lines that follow, however, that the profit difference between the two strategies lessens as R_2 is increased. Indeed, for large enough values of R_2 , the optimal discount approach ultimately becomes the dominant strategy. (This would not have happened if S_2 were more than \$940.) My point is not to argue the merits of what level R_2 must be, but only to indicate its potential importance in the analysis. This may be of especial relevance for those companies which normally have low D_1/R_2 ratios because they manufacture multiple items (products lines) using the same production machinery.

More importantly, while each strategy may have a range of optimality, Table I suggests that each yields what we might consider "competitive" results. (See the percentage difference column given above.) It seems that if S_2 is not too much bigger than S_1 , which production/discount combination we select does not matter all that much.

If not, we discover an unexpected potential benefit of utilizing the quantity discount model. Discounts provide the supplier with an affordable new *option* to create "manufacturing flexibility." Even those firms still plagued with high setup costs can use discounts to soften the financial impact of adjusting their traditional manufacturing strategy toward the "just-in-time" approach of the Japanese. (See also Banerjee 1986 for additional reasons why a firm might wish to use the LFL approach.)

In summary, the principal objective of my 1984 paper was to present an introductory model, illustrating a workable methodology for designing simple, but profitable quantity-discount schedules. In retrospect, one might agree with Professor Joglekar that some of the assumptions made along the way were limited. If so, my apparent naivete may actually

TABLE I
Supplier's Net Profit

Optimal Discount Strategy				Optimal Production Strategy		
D_1/R_2	K^*	$d(KY)$	N. Profit	n^*	N. Profit	% Difference
0.666	2.477	\$0.0809	\$24734	6	\$27033	(0.0851)
0.333	2.701	\$0.1071	\$25337	4	\$26367	(0.0391)
0.030	2.965	\$0.1302	\$25930	3	\$25957	(0.0010)
0.000	3.000	\$0.1313	\$26000	3	\$25933	0.0026

have been a good thing in disguise. The subject matter was then relatively new, and my paper was primarily intended to help awaken interest in an exciting decision area, worthy of our collective attention. Based on a sampling of the many new papers seen in recent years (Banerjee 1986, Chakravarty and Martin to appear, Dolan 1987, Kim and Hwang 1988, Lee and Rosenblatt 1986, Rosenblatt and Lee 1985), it may have succeeded in this regard.

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CORRECTION

**REPLY—"CONSIDER THE PRINCIPAL FINDING:
A REPLY TO WILLIAM T. ROSS"**
(Vol. 34, No. 5, May 1988, pp. 672-673)

ROBIN M. HOGARTH AND SPYROS MAKRIDAKIS
Graduate School of Business, University of Chicago, Chicago, Illinois 60637
The European Institute of Business Administration, Fontainebleau, France

On p. 673, we stated that we had been refused permission to replicate our study using the Markstrat game (Hogarth & Makridakis 1981) and questioned whether our results had dampened willingness to conduct this kind of research using Markstrat. These statements were based on a misunderstanding. We sincerely regret their negative implications.

Reference

- HOGARTH, R. M., AND S. MAKRIDAKIS, "The Value of Decision Making in a Complex Environment: An Experimental Approach," *Management Sci.*, 27, 1 (1981), 93-107.